

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 CAB-02 CIAE-00 COME-00

DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 SS-15

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R 031823Z SEP 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4686

INFO AMEMBASSY BONN

AMEMBASSY THE HAGUE

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C O N F I D E N T I A L SECTION 01 OF 03 PARIS 25857

NOFORN

E. O. 11652: GDS

TAGS: EAIR, EIND, FR, US

SUBJ: CIVAIR: AIR FRANCE FLEET RENEWAL AND MERCURE

200

1. SUMMARY: GOF HAS TOLD AIR FRANCE TO BUY DC-9'S,
BUT AIR FRANCE IS HOLDING OUT FOR 737. MIGHT BUY
SOME DC-9'S IF GOF WOULD RESCIND EARLIER BAN ON
MORE 727'S WHICH IS WHAT AIR FRANCE REALLY WANTS.
AIR FRANCE OFFICIAL SEES SMALL MARKET FOR MERCURE 200
AND BELIEVES DESIGN DEFICIENCY IN WING WILL
INEVITABLY LEAD TO SIZEABLE COST OVERRUN IF PROJECT
IS PURSUED. DOUGLAS IS BELIEVED TO HAVE GONE ALONG
WITH MERCURE 200 PROJECT WITH MINIMUM INVOLVEMENT
SOLELY IN ORDER LAND DC-9 ORDER FOR AIR FRANCE.

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SITUATION BEARS CAREFUL WATCHING, FOR IT COULD

EASILY TURN SOUR AFFECTING US INTERESTS, ESPECIALLY
SINCE PUBLIC DEBATE IS FAR FROM OVER IN FRANCE.
END SUMMARY.

2. AIR FRANCE FLEET RENEWAL AND MERCURE 200 PROJECT
WERE SUBJECTS OF LENGTHY DISCUSSION SEPT. 2 WITH
SENIOR TECHNICAL OFFICIAL AT AIR FRANCE WHO IS
CLOSELY INVOLVED WITH THE FLEET RENEWAL PROBLEM.
THIS OFFICIAL CONFIRMED THAT GOF HAD IN
FACT ASKED AIR FRANCE TO BUY DC-9'S AND HE SAID GOF
WAS BRINGING VERY HEAVY PRESSURE TO BEAR IN SUPPORT
OF ITS REQUEST. GOF HAD THUS FAR BEEN
CAREFUL TO PUT NONE OF THIS IN WRITING. AIR FRANCE
CHAIRMAN GIRAUDET HAD INFORMED GOF MINISTERS
CONCERNED THAT AIR FRANCE DID NOT WISH PURCHASE
DC-9'S AND INSTEAD PREFERRED 737'S. OUR SOURCE
EXPECTED THAT A DECISION WOULD BE TAKEN VERY SOON
AND HE FEARED THAT IF THE GOF CONTINUED TO INSIST
THAT DC-9'S BE ORDERED AIR FRANCE TOP MANAGEMENT
WOULD FINALLY BOW TO THIS PRESSURE.

3. SEVERAL REASONS EXPLAINED AIR FRANCE PREFERENCE
FOR 737'S. ANNUAL SALES OF DC-9'S IN ALL VERSIONS
HAD DECLINED MARKEDLY IN RECENT YEARS AND WERE NOW
STAGNATING, WHEREAS ANNUAL SALES OF 737, WHICH WAS
DEVELOPED LATER THAN DC-9, REMAINED AT A CONSTANT,
RESPECTABLE LEVEL, MEANING THAT 737 UNLIKE DC-9 WAS
STILL IN DEMAND BY WORLD CARRIERS. (COMMENT: GEORGE
MARCHAIS MIGHT THUS HAVE SOME SUPPORT FOR HIS
CONTENTION THAT DC-9 IS "TECHNICALLY OUTMODED"--
PARIS 25381.) DC-9 HAD SLIGHTLY HIGHER FUEL
CONSUMPTION AND SHORTER RANGE THAN DID 737. 737
WOULD PROVIDE COMMONALITY WITH OTHER BOEING EQUIPMENT
IN AIR FRANCE FLEET AND RESULT IN COST SAVING
AS COMPARED ADDITION OF DC-9'S TO FLEET. DC-9
COCKPIT WAS ALSO DESIGNED FOR TWO-MAN CREW. IN THE
PAST, UNIONS AT AIR FRANCE HAVE BITTERLY OPPOSED
ANY MOVE TOWARD TWO-MAN CREWS (WHICH WOULD ELIMINATE
FLIGHT ENGINEER). DOUGLAS HAD OFFERED MODIFY DC-9
COCKPIT TO PROVIDE FOR THIRD CREW MEMBER FOR AIR
FRANCE, BUT PROPOSAL WAS UNSATISFACTORY. IF AIR
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FRANCE WERE TO BUY DC-9'S FOR OPERATION
WITH TWO-MAN CREWS, MANAGEMENT COULD EXPECT TO BE
CONFRONTED IMMEDIATELY WITH A STRIKE BY FLIGHT
PERSONNEL. (MANAGEMENT HOPES, IN FACT, THAT CONCERN
OVER CREW SIZE WILL MAKE AIR FRANCE UNIONS ALSO VOICE

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FM AMEMBASSY PARIS

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OPPOSITION TO ACQUISITION OF DC-9'S FOLLOWING
UPCOMING MEETING WITH UNION REPS TO DISCUSS FLEET
RENEWAL.)

4. WHAT AIR FRANCE REALLY WANTED, HE SAID, WERE
MORE 727'S. IF 727'S COULD BE BOUGHT, THEN NO MORE
THAN SIX TO EIGHT 737'S MIGHT BE NEEDED. THERE WAS
NO QUESTION ANYWAY OF ONE-FOR-ONE REPLACEMENT OF
CARAVELLES. 727 WAS SUFFICIENTLY VERSATILE SO THAT
IT COULD NOT ONLY BE USED ON SOME OF ROUTES ON WHICH
CARAVELLES NOW OPERATED BUT COULD ALSO REPLACE 707'S
ON ALL BUT THE LONGER ROUTES. ON THE LONGER ROUTES
747 "COMBI" MIGHT BE MOST EFFICIENT REPLACEMENT FOR
707. NO CONSIDERATION IS BEING GIVEN TO DC-10 AS
REPLACEMENT FOR 707 AT AIR FRANCE. PROBLEM IN
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PROCURING MORE 727'S, HOWEVER, WAS THAT FIVE YEARS AGO GOF HAD RULED AIR FRANCE WOULD NOT BE PERMITTED TO HAVE MORE THAN TWENTY 727'S IN ITS FLEET, AND AIR FRANCE WAS ALREADY AT THAT CEILING. IF GOF WOULD AGREE TO AUTHORIZE AIR FRANCE TO BUY MORE 727'S, WHICH IS THE AIRCRAFT AIR FRANCE MOST WANTS, THEN THIS OFFICIAL THOUGHT PERHAPS MANAGEMENT MIGHT BE PREPARED TO GO ALONG WITH PURCHASE OF AT LEAST A FEW DC-9'S IF THIS WAS THE PRICE THAT HAD TO BE PAID TO GET MORE 727'S.

5. HE SAID AIR FRANCE WAS RESIGNED TO FACT IT WOULD HAVE TO BUY SOME MERCURE 200'S IN EARLY EIGHTIES IF THIS AIRCRAFT WERE PRODUCED, THOUGH AIR FRANCE DID NOT RELISH THE PROSPECT. AIR FRANCE HAD CONDUCTED A SURVEY AMONG EUROPEAN CARRIERS WHICH REVEALED THERE MIGHT BE A MARKET IN EUROPE FOR NO MORE THAN ONE HUNDRED MERCURE 200'S. AIR FRANCE FORESAW NO MARKET IN US FOR MERCURE 200 AS IT WAS PRESENTLY CONCEIVED. MAIN REASON WAS THAT AIR FRANCE AS WELL AS SNIAS ENGINEERS CONSIDER THERE IS SERIOUS DEFICIENCY IN DESIGN OF MERCURE 200 THROUGH RETENTION OF BASIC WING OF MERCURE 100 TO WHICH ONLY MINOR MODIFICATIONS WOULD BE MADE IN DASSAULT-DOUGLAS-SNIAS PROJECT AS NOW PLANNED. (THIS WAS ALSO THE VIEW OF LOCKHEED IN THEIR EARLIER DISCUSSIONS WITH DASSAULT AND BOEING HAS SINCE TOLD US THE SAME THING. ALSO SEE RECENT COMMENT THIS POINT IN AVIATION WEEK.) SNIAS DESIGN FOR NEW MEDIUM-RANGE AIRCRAFT (AS-200) FOR WHICH GOF APPROVAL WAS UNSUCCESSFULLY SOUGHT SOME TIME AGO WOULD HAVE RETAINED BASIC FUSELAGE OF MERCURE 100 BUT PROPOSED ENTIRELY NEW WING. AIR FRANCE OFFICIAL SAID THAT MERCURE 100 WING, ON WHICH CFM-56 ENGINES WOULD BE HUNG IN MERCURE 200 VERSION, WAS SIMPLY TOO SMALL. ONE TEST OF MARKETABILITY OF AN AIRCRAFT IN US WAS VERSATILITY OF PERFORMANCE MEASURED BY SUCH CRITERIA AS WHETHER IT COULD OPERATE TO POINTS SUCH AS DENVER; HE SAID THAT WITH PRESENT WING MERCURE 200 COULD NEVER MAKE IT IN TO DENVER.

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6. IT WAS THE OPINION OF THIS OFFICIAL THAT IF THE MERCURE 200 PROJECT AS NOW CONCEIVED WERE PURSUED,

IT WAS BOUND TO BECOME EVIDENT THAT DEFICIENCIES IN WING DESIGN EXISTED THAT HAD TO BE CORRECTED. HE SAID THAT THIS WAS ALREADY THE VIEW OF "SOME" (WE PRESUME HE MEANT SNIAS, IN THE FIRST INSTANCE) NOW ASSOCIATED WITH THE PROJECT. IF THE WING WERE REDESIGNED IN THE COURSE OF THE PROJECT, WHICH WOULD IN TURN INVOLVE ADDITIONAL WORK ON THE FUSELAGE, THEN THE COST OF THE PROJECT WAS LIKELY TO ESCALATE FROM THE PRESENTLY ESTIMATED \$240 MILLION TO AS MUCH AS \$1 BILLION. WHEN WE EXPRESSED SOME DISBELIEF PARTIES INVOLVED WOULD EMBARK SO LIGHTLY ON SO IMPORTANT A PROJECT, THIS OFFICIAL NOTED THAT THE DASSAULT GROUP WAS NOT WITHOUT INFLUENCE IN FRENCH POLITICAL CIRCLES AND THE PROSPECT OF AN EVENTUAL COST OVERRUN--EVEN OF A SUBSTANTIAL AMOUNT--MIGHT HAVE BEEN CONSIDERED LESS RISKY FOR THE PROJECT THAN PROPOSING A MUCH MORE AMBITIOUS AND HENCE COSTLY DESIGN AT THE OUTSET THAT COULD HAVE MADE THE MERCURE 200 PROJECT MUCH LESS ATTRACTIVE TO THE GOF. (WE NOTE THAT THE NEWSMAGAZINE LE POINT HAS CALLED THE MERCURE 200 "DASSAULT'S REVENGE".) AS FOR THE GOF, HE DEPLORED THE FACT THAT DECISIONS IN SUCH MATTERS WERE ALL TOO OFTEN TAKEN BY TECHNOCRATS WHO HAD LITTLE PRACTICAL KNOWLEDGE OF THE AEROSPACE OR AIR TRANSPORT INDUSTRIES. IT WAS ALSO EVIDENT, HE SAID, THAT WITH THE MERCURE 200 THE GOF WAS NOT

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CONCERNED WITH THE LONG TERM BUT WITH THE SHORT TERM,
ESSENTIALLY FOR POLITICAL REASONS. THE GOF, HE
NOTED, SEEMED NOT TO BE LOOKING MUCH BEYOND THE 1978
LEGISLATIVE ELECTIONS AND WHAT MIGHT INFLUENCE THE
ELECTORATE IN THE MEANTIME. (COMMENT: DEPT. WILL
RECALL THAT HEAD OF SNIAS HAS EARLIER TOLD BOEING GOF
WAS ANXIOUS BE ABLE ANNOUNCE NEW AIRCRAFT PROJECT AT
EARLY DATE FOR POLITICAL REASONS--PARIS 24461.
NOT EVERYONE--INCLUDING AIR FRANCE--SHARES CAVAILLE'S
ESTIMATE OF MARKET FOR 800 MERCURE 200'S, WHICH
PROMPTS CURIOSITY OVER HIS MOTIVES IN ADVANCING SO
GENEROUS A FIGURE.)

7. AS FOR DOUGLAS PARTICIPATION IN THE MERCURE 200
PROJECT, AIR FRANCE OFFICIAL SAID HE WAS CONVINCED
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DOUGLAS' SOLE INTEREST WAS TO OBTAIN LEVERAGE IN
THIS MANNER ON GOF IN ORDER TO BE ABLE SUPPLY AIRCRAFT
TO AIR FRANCE. HE THOUGHT THAT WAS THE ONLY
POSSIBLE EXPLANATION OF WHY SO SOLID A FIRM AS DOUGLAS
WOULD GO ALONG WITH SO UNSOUND A PROJECT AS MERCURE
200. HE SCOFFED AT THE PROPOSED LEVEL OF DOUGLAS
PARTICIPATION IN THE PROJECT, WHICH INVOLVED
ESSENTIALLY COMMITMENT TO MARKET AND PROVIDE SOME
AFTER-SALES SERVICE FOR MERCURE 200 IN THE US. THIS
COMMITTED DOUGLAS TO VERY LITTLE, HE SAID, WHILE
DOUGLAS STOOD TO GAIN CONSIDERABLY IF IT COULD
PENETRATE MARKET FOR SUPPLY OF AIRCRAFT TO AIR
FRANCE.

8. AT END OF THE DISCUSSION AIR FRANCE OFFICIAL
ASKED WHETHER EMBASSY HAD ANY PREFERENCE AS BETWEEN
DOUGLAS OR BOEING AS PARTNER FOR COOPERATIVE VENTURES
WITH FRENCH INDUSTRY. WE REPLIED THAT IN SUCH
MATTERS USG REMAINED STRICTLY NEUTRAL, BEING CAREFUL
NOT TO TAKE SIDES AS BETWEEN AMERICAN COMPANIES IN

WHAT WERE PURELY COMMERCIAL MATTERS FOR DECISION BY THESE COMPANIES. THIS BEING SAID, HOWEVER, THE USG AND HENCE THE EMBASSY HAD AN OBVIOUS INTEREST IN KEEPING ABREAST OF MATTERS AFFECTING FRANCO-AMERICAN COOPERATION IN ALL AREAS, INCLUDING COOPERATION BETWEEN OUR TWO INDUSTRIES. EMBASSY HAD THEREFORE BEEN FOLLOWING FAIRLY CLOSELY DEVELOPMENTS LEADING UP TO THE MERCURE 200 PROJECT AND WOULD CONTINUE TO DO SO.

9. COMMENT: THE CHOICE OF DOUGLAS OR BOEING EQUIPMENT MAY POSE PROBLEMS FOR AIR FRANCE BUT NOT FOR US IN THE SENSE THAT EITHER WAY IT WILL BE A US EXPORT. HOWEVER, IF FOR WHATEVER REASON DOUGLAS FAILS TO PLACE DC-9'S WITH AIR FRANCE, ONE WONDERS WHETHER DOUGLAS WOULD STAY WITH THE MERCURE 200 PROJECT. AND IF DOUGLAS WERE TO STAY WITH THE PROJECT, ONE WONDERS WHETHER CRITICISM OF THE MERCURE 200 DESIGN IS WELL-FOUNDED AND WHETHER A COST OVERRUN (FUNDED LARGELY BY THE GOF) WOULD RESULT, WITH ALL THE CRITICISM THIS WOULD GENERATE. PERHAPS THE UPCOMING TALKS BETWEEN DOUGLAS AND THE FRENCH RE AIRBUS (PARIS 25681) MAY RESULT IN CONFIDENTIAL

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SOME BROADENING OF THEIR COOPERATION THAT COULD ALSO AFFECT THE FUTURE OF THE MERCURE PROJECT. IN ANY CASE, THE SITUATION CERTAINLY BEARS CLOSE WATCHING, FOR THERE IS MUCH IN ALL OF THIS THAT COULD TURN SOUR WITH RISK OF HARM TO US INTERESTS, ESPECIALLY SINCE WE'RE CLEARLY A LONG WAY FROM THE END OF PUBLIC DEBATE ON THESE QUESTIONS IN FRANCE.
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